

**Testimony by Assistant Secretary of State  
for Economic and Business Affairs  
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Investigations and Domestic and International Monetary, Policy, Trade  
and Technology  
"Combating International Terrorist Financing"  
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Madam Chairman, Mr. Chairman, and distinguished Members of the Subcommittees:

Thank you for this opportunity to discuss the Department of State's views on the terrorist finance elements of the 9/11 Commission report. First, my Department commends the Commission for its solid recommendations, which advance our deliberations on how best to use financial tools to foil terrorists' attempts to kill, maim and intimidate Americans and other innocent people. I would also like to underscore the critical worth of the staff monograph on terrorist financing, which focuses on how the United States government has organized itself to optimize the use of a range of tools to fight terrorism.

The Commission report and the staff monograph note that our efforts to combat terrorist finance serve many objectives and employ many tools. My goal today is to sketch for you the role of the Department of State plays in the interagency process that aims to strike the right balance of priorities and use the right mix of tools in each case.

### **Tracking Terrorist Finances**

The 9/11 Commission report presents a comprehensive and balanced assessment of the Administration's efforts to frustrate and reduce terrorist financing in the wake of the 9/11 attacks. The report specifically highlights two major policy tools utilized by the Administration: freezing the assets of terrorist financiers; and using information about terrorist financiers to disrupt the terrorist networks themselves.

We concur with the Commission's recommendation that "vigorous efforts to track terrorist financing must remain front and center in U.S. counterterrorism efforts." We are pleased that the Commission recognized that this front in the Global War on Terrorism is central to our efforts. We also agree that operational law enforcement and intelligence cooperation on terrorist financing must be a priority, and can help disrupt the operations of terrorist organizations.

Since terrorists largely operate internationally, a key component of the fight is to build international cooperation. To achieve this goal, our approach has been to draw as appropriate on a wide range of flexible policy tools, including:

- (1) Bilateral and multilateral diplomacy;
- (2) Law enforcement and intelligence cooperation;
- (3) Public designations of terrorists and their supporters for asset-freeze actions;
- (4) Technical assistance; and
- (5) Concerted international action through multilateral organizations and groups, notably the Financial Action Task Force on Money Laundering (FATF).

Effective diplomacy is a key element in winning the political commitment from which cooperation in other areas flows. Our diplomats are the overseas eyes, ears and voices of the U.S. government in dealing with foreign governments and financial institutions on terrorism finance. In this sense, diplomats serve an even more crucial role in the many countries where we have no resident legal or Department of Treasury attaché. With enhanced cooperation, intelligence and law enforcement officers are able to follow the money trail. With international cooperation on asset-freeze designations (as well as travel bans and arms embargoes under UN resolutions), we force terrorists into less reliable and more costly means of moving money. Designations also chill support for terrorism - it is one thing to write a check or transfer money to terrorists when no one is looking; it is quite another to realize that such actions can bring unwanted official attention and lead to prosecution. Public identification of charitable groups that funnel some of their donations off to support terrorists has also proven a powerful tool to discourage further donations and to encourage other governments to monitor more effectively the activities of non-governmental organizations.

Since 9/11 we have ramped up our efforts and made substantial progress. We also acknowledge that much remains to be done. Since September 11, 2001, we have:

- Developed a broad and strong international coalition against terrorist financing;
- Ordered the freezing of the U.S. assets of almost 400 individuals and entities linked to terrorism;
- Submitted and supported the submission by other countries, including Saudi Arabia and several of our European partners, of 287 al-Qa'ida-linked names to the UN 1267 Sanctions Committee (also known as the Al Qa'ida/Taliban Committee) for sanctions, including asset-freezing thereby requiring all countries to act against these names;
- Acted against supporters of Jemaah Islamiyah, the Asian terrorist group linked to the Bali disco bombing, among other attacks (50 countries banded together in this submission to the UN 1267 Committee); designated for asset freeze charities funding HAMAS; and taken action against Saudi terrorism financiers and financial support networks;
- Frozen approximately \$142 million and seized approximately \$65 million in assets located internationally, including in the United States;
- Through our embassies, formally approached every government internationally to freeze the assets of each and every name we designate;
- Supported changing national laws, regulations and regulatory institutions around the world to better combat terrorist finance and money laundering; including working with the European Union, APEC, the Organization of American States and the Financial Action Task Force and their Members to strengthen their counter-terrorism finance regimes; and
- Made it harder for terrorists and their supporters to use both formal and informal financial systems.

#### Effective U.S. Government Coordination

Key to our success in tackling terrorism finance is effective U.S. interagency coordination. A Policy Coordination Committee (PCC), established under the auspices of the National Security Council, ensures that these activities are well coordinated. This strong interagency teamwork involves the intelligence agencies and the law enforcement community, led by the FBI, as well as State, Treasury, Homeland Security, Justice, Defense collectively pursuing an understanding of the system of financial backers, facilitators and intermediaries that play a role in this shadowy financial world. As appropriate, PCC members also draw on the expertise of financial regulators. The overarching lesson I draw from my experience since 9/11 is the importance of overall direction of the terrorist finance effort by a body that can direct all of the USG participants in the process to find the right blend of instruments to use on a case-by-case basis. The NSC is ideally placed to play this coordinating role against terrorist finance, as it has traditionally done in other national security areas.

Treasury develops and coordinates financial packages that support public designations of terrorists and terrorism supporters for asset freeze action. It leads our outreach to FATF and the international financial institutions. Justice leads the investigation and prosecution in a coordinated campaign against terrorist sources of financing. And, State initiates asset-freeze designations of terrorist groups and shepherds the interagency process through which we develop and sustain the international relationships, strategies and activities to win vital international support for and cooperation with our efforts. These efforts include the provision of training and technical assistance in coordination with Justice, Treasury, Homeland Security and the financial regulatory agencies. The U.S. Government's task has been to identify, track and pursue terrorist financing targets and to work with the international community to take measures to thwart the ability of terrorists to raise and channel the funds they need to survive and carry out their heinous acts.

Our diplomatic posts around the world are essential partners in implementing this global strategy. They have each designated an official, generally the Deputy Chief of Mission, as the Terrorism Finance Coordination Officer (TFCO). These officers chair interagency meetings at posts on a regular basis, not only to evaluate the activities of their host governments but also to develop and propose individual strategies on most effectively getting at specific targets in their regions. The increased level of

interagency cooperation we in Washington are seeing on this front is generating new embassy initiatives focused sharply on terrorist finance. The ability of diplomats at our embassies to develop high-level and immediate contacts with host officials in these efforts has built broad responsiveness around the world to various targeting actions.

### U.S. Asset Freezing (E.O. 13224) Actions

A key weapon in the effort to disrupt terrorist financing has been the President's Executive Order (E.O.) 13224, which was signed on September 23, 2001, just 12 days after 9/11. That order provided the basic structure and authorities for an unprecedented effort to identify and freeze the assets of individuals and entities associated with terrorism. Under that order, the Administration has frozen the assets of almost 400 individuals and entities on 60 separate occasions. The agencies cooperating in this effort are in daily contact, examining and evaluating new names and targets for possible asset freeze. However, our scope is not just limited to freezing assets. We consider other actions as well, including developing diplomatic initiatives with other governments to conduct audits, exchange information on records, law enforcement and intelligence efforts; and shaping new regulatory initiatives. While designating names is the action that is most publicly visible, it is by no means the only action or the most important in seeking to disrupt the financing of terrorism.

### Foreign Terrorist Organizations

A second tool the Secretary of State has in the war on terrorist finance is the designation of Foreign Terrorist Organizations (FTO). The Congress gave the Secretary this authority in 1996, and 38 organizations are currently designated as FTOs. In addition to asset freezing, this authority allows the Secretary to ban entry into the U.S. of members of these groups, and if members are in the U.S., to remove them. Support for an FTO is punishable by up to 20 years in prison. The identification of groups under this authority is one of the steps most widely recognized by the American public in the war on terrorist finance.

### United Nations Actions

Even before 9/11, the UN Security Council (UNSC) had taken action to address the threat of terrorism. It had adopted resolutions 1267 and 1333,

which collectively imposed sanctions against the Taliban, al-Qaida, Usama bin Laden and those associated with them. Following 9/ 11, the UNSC stepped up its counter-terrorism efforts by adopting Resolutions 1373 and 1390. Resolution 1373 requires all States to prevent and suppress the financing of terrorist acts and to freeze the assets of terrorists and their supporters. It also imposes bans on travel and arms sales to these individuals. Resolution 1390 (strengthened by Resolutions 1455 and 1526) continued sanctions, including asset freezes, against Usama bin Laden, the Taliban, al-Qaida and those associated with them. The UN 1267 Sanctions Committee maintains and updates a list of individuals and entities subject to these sanctions, which all States are obligated to apply.

Through these actions, the UNSC has sent a clear and strong message underscoring the global commitment against terrorists and their supporters and giving international force and legitimacy to asset freezes and other sanctions. This is extremely important, because: (1) most of the assets making their way to terrorists are not under U.S. control; and (2) when the 1267 Sanctions Committee designates individuals or entities associated with al-Qaida, all 191 UN Member States are obligated to implement against those persons the applicable sanctions, which include asset freezes. The 1267 Sanctions Committee has added a total of 285 al-Qaida-linked names to its consolidated list since 9/11.

In those cases where the United States Government decides to propose listing of a terrorist and/or his financier on the 1267 Committee list, State plays a key role in recommending how best to gain the broadest international support. First, we need to be sure that we can make an effective public case. This is much more difficult and time-consuming than it sounds – but is crucial to the success of this approach. Often, strong cases are based heavily on classified information, and we must weigh competing priorities. If we go the UN to propose a designation and the unclassified information standing alone is weak, others will not support us. On the other hand, there are often compelling reasons not to declassify further information. The Department and our embassies help the interagency team strike the right balance by providing advice and insights on what it will require for a designation to gain international approval. Once a designation proposal is decided, the Department seeks international support in the form of potential co-designators and support from other members of the UN Sanctions Committee. When a new name goes onto the UN list, we bring it to the

attention of every government in the world to ensure that they are able to take effective and quick action against the designee.

### Improving National Laws, Regulations and Standards

In addition to advances on the UN front, we have witnessed considerable progress on the part of countries around the world to equip themselves with the instruments they need to clamp down on domestic terrorist financing. Since 9/11, about 90 countries in every region of the world have either adopted new laws or regulations to fight terrorist financing or are in the process of doing so. This is an ongoing process with many countries refining their laws and regulations to assure they have all of the tools needed to be effective.

To ensure that these new laws and regulations are effective, the United States has worked very closely with the FATF, a multinational organization whose 33 members are devoted to combating money laundering. In 2003, FATF revised its 40 Recommendations to combat money laundering to include terrorist financing provisions. These Recommendations along with the complementary Eight Special Recommendations on Terrorist Financing, adopted in 2001, provide a framework for countries to establish a comprehensive regime to fight money laundering and terrorist financing. The two guiding principles the FATF has identified as critical to fighting terrorist finance are cooperation with the UN (respecting, ratifying and implementing anti-terrorist treaties and resolutions) and identifying, defining and criminalizing terrorist financial activity. FATF is monitoring compliance with its recommendations in coordination with the IMF and the World Bank. In addition, FATF works with FATF-Style Regional Bodies (FSRBs) so that its reach is much farther than the 33 FATF members. FATF is also working cooperatively with the UN Counter-Terrorism Committee (CTC) and the G-8-initiated Counter-terrorism Action Group (CTAG) to complete assessments of designated countries' needs for technical assistance to improve local ability to combat terrorist financing.

We have seen substantial progress in securing countries' commitment to strengthen their anti-money laundering laws and regulations, which is inextricably linked to counter-terrorist finance. In large part due to FATF's

focus and efforts on terrorist financing, for instance, the Indonesian Parliament passed important amendments to its anti-money laundering law on September 16, 2003 – amendments that will improve the country's ability to take actions against terrorist financing. Similarly, it was FATF's efforts that led the Philippines to pass legislation in March 2003 that will significantly increase that country's ability to carry out meaningful anti-terrorist financing measures. FATF advises on whether such regulations and legislation meet international standards and are effective instruments to combat money laundering and terrorist financing.

In addition to providing countries with the guidance they need to develop effective regimes, FATF also places pressure on difficult countries via its Non-Cooperating Countries and Territories (NCCT) program, which provides for blacklisting countries that are non-cooperative with respect to anti-money laundering practices. FATF's NCCT program creates an incentive for states to vigorously address their legal and regulatory environments to allow appropriate action against money laundering. Nigeria and the Philippines, for instance, in December 2002 and February 2003 respectively, took meaningful legislative steps to strengthen their respective anti-money laundering laws to avoid imposition of FATF countermeasures. The Philippine Anti-Money Laundering Council has since filed 62 cases: 31 for money laundering, 23 for civil forfeiture, and five freeze orders, and several applications for bank inquiry. FATF will be reviewing the progress the Philippines have made shortly. Ukraine likewise passed legislation in January 2003 that removed the threat of immediate FATF sanctions and ultimately led to its removal from the NCCT list in February 2004. Ukraine joined the Egmont Group of financial intelligence units in June 2004.

As we, together with others in the international community, began to look into how terrorist groups raised and moved their funds, the fact that much of this took place outside regular banking systems quickly became apparent. As a result, international efforts underway to set standards for tackling terrorist financing are also addressing how to prevent charities and not-for-profit organizations from being abused by those with malicious intentions and also how to help keep cash couriers and alternative remittance systems, such as "hawala," from being used to finance terrorism. The FATF, which has already addressed some of these issues through its Special Recommendations on Terrorist Financing, is now working to develop guidelines and standards on cash couriers, wire transfers and regulation of charities and non-governmental organizations. Setting new standards and



norms in these areas is key to making our international efforts more effective.

### Capacity Building

On the technical assistance front, the Terrorist Finance Working Group (TFWG), chaired by the State Department, has provided over \$11.5 million in Foreign Assistance funding to provide technical assistance and training to develop and reinforce counter-terrorist financing/anti-money laundering regimes of frontline states. To date, over 20 U.S. Government offices and agencies participating in the TFWG, which include the Justice, Treasury and Homeland Security Departments, have provided assistance to 18 countries on five different continents. These comprehensive training and technical assistance programs include legislative drafting, financial regulatory training, financial intelligence unit development, law enforcement training, and prosecutorial/judicial development.

We have provided several countries in the Gulf and South Asia with different types of training related to sound counter-terrorist finance practices, including the detection of trade-based money laundering (moving money for criminal purposes by manipulation of trade documents), customs training, anti-terrorist finance techniques and case studies for bank examiners, and general financial investigative skills for law enforcement/counter-terrorist officials. Our international partners have welcomed this type of training, and we plan to provide it to other vulnerable jurisdictions in other regions.

U.S. efforts to assist Indonesia with the 2002 Bali bombing and 2003 J.W. Marriott Hotel attack demonstrate the seriousness of our counter-terrorism strategy, including our terrorist finance efforts. As the result of their hard work and U.S. and Australian assistance, Indonesian authorities have arrested over 80 Jemaah Islamiyah (JI) members associated with the Bali bombings and convicted 33 of them. Close law enforcement cooperation among the United States, Indonesia, Australia, and other Southeast Asian states has also led to an aggressive campaign against JI on all fronts including its financing. In the wake of the Bali bombings, the international community moved to "name and shame" JI with a record 48 countries - including all of ASEAN and all of the EU - supporting Australia and the United States in the UN terrorist designation of JI. Indonesia has made significant progress in reinforcing its counter-terrorism measures

through stringent legislation, robust law enforcement investigations and prosecutions, and a more transparent financial system to combat money laundering and terrorist financing. Clearly, this effort must continue, led by the Indonesians but with the support of the U.S. and others. During my recent trip to the Philippines, Singapore and Malaysia, I was pleased to see all three governments focusing on specific steps to improve their ability to combat terrorist finance as well.

Burden sharing with our key coalition partners is an emerging success story. For instance, the governments of Australia, New Zealand and the United Kingdom, as well as the EU, and the Asian Development Bank, have significant technical assistance initiatives underway in countries such as the Philippines, Indonesia, Pakistan, Malaysia and Egypt. Just last week, we discussed with the EU possibilities for cooperation in provision of technical assistance to priority countries.

#### Areas of Focused Cooperation

The Administration is actively involved in combating terrorist financing through partnerships we have established across the globe. In particular, I would like to specifically highlight for you our recent cooperative efforts with Saudi Arabia and the EU.

Saudi Arabia has been one important focus of our efforts. An interagency team of experts travels regularly to Saudi Arabia to work with their counterparts to identify and block suspect accounts and assess technical assistance needs. Our terrorism finance cooperation with Saudi Arabia is real-time, ongoing, and fully embedded into our day-to-day counter-terrorism operations. We have jointly designated, with the Saudis, over a dozen Saudi-related entities and multiple individuals under E.O. 13224.

Demonstrating its commitment to address systemic factors contributing to the flow of funds to terrorists, Saudi Arabia has recently promulgated a number of laws that hold charities accountable for their actions and the funding of projects outside the Kingdom. Saudi Arabia has made important changes to its banking and charity systems to help strangle the funds that support al-Qaida. As part of a State-led interagency assistance program, Federal banking regulators have provided specialized anti-money laundering and counter terrorist financing training to their Saudi counterparts. Saudi Arabia's new banking regulations place strict controls

on accounts held by charities. Saudi Arabia has also ordered an end to the collection of donations at mosques and instructed retail establishments to remove charity collection boxes from their premises, steps that are extremely challenging for the Saudi government, but which it has ordered because it understands that terrorists are more likely to use funds collected anonymously and without an audit trail than those that move through regular banking channels.

Saudi Arabia is working with us closely in the context of the new Joint Task Force on Terrorist Financing, led on the U.S. side by the FBI. As part of the State-led interagency counterterrorist financing assistance program, experts from the FBI and IRS have completed the first part of a training model designed to strengthen the financial investigative capabilities of the Saudi security forces, with more advanced courses to follow. That being said, this remains a work in progress. We have reason to believe that the new task force on terrorist financing will be effective but we will need to see results. We believe the Saudi Arabian Government is implementing its new charity regulations, but there too, we will need to see results. The recent FATF mutual assessment of Saudi Arabia found that the Kingdom has taken essential steps - closer bank supervision, tighter banking laws, enhanced oversight - critical to curbing terrorist financing and money-laundering. We find this to be encouraging news. There is more to do, and we will continue to press ahead with our efforts with the Saudi Arabian Government.

We also have a "good news" story to tell regarding our cooperation with the EU on combating terrorist financing. The EU has designated for asset freezing almost all the names designated by the United States under E.O. 13224, in addition, of course, to all the al-Qa'ida-related names listed on the UN's consolidated list. We have also reinvigorated our productive dialogue with the EU, based on the June 26, 2004, U.S.-EU Summit Declaration, which outlines a realistic roadmap on moving ahead toward implementing effective measures to crack down on terrorist financing across Europe and beyond. At the heart of this declaration is a joint commitment to support the work of the FATF on all terrorism financing issues, including by ensuring that EU and national legal frameworks are fully adapted to the FATF's Eight Special Recommendations on terrorist financing. I have just returned from Brussels, where I led an interagency team to share U.S. best practices and lessons learned in the fight against terrorism finance with over a hundred experts from almost all EU countries. We agreed that our

prosecutors and experts needed to exchange their practical experiences to identify ways to more effectively tackle such issues as front organizations and the pros and cons of pursuing administrative or judicial actions against terrorist financiers. We will continue to work with these officials to move ahead on fulfilling the commitments in the U.S.-EU Summit Declaration. Together, we will work to: put in place even more effective laws and processes to freeze assets and block transactions; strengthen measures to regulate alternative remittance systems such as hawala and bulk cash couriers; ensure effective implementation of legislation criminalizing the financial support of designated names; encourage appropriate enforcement agencies to analyze accounts of designated entities for law enforcement and intelligence leads, and identify best practices for guarding against misuse of charities and NGOs.

This was an ambitious, far-reaching agenda – and fortunately the Netherlands, which holds the EU Presidency for the remainder of 2004, is committed to pushing ahead with reforms that will enable all EU member states to improve their ability to combat terrorism. The EU's Counter Terrorism Coordinator, Gijs DeVries, is adding focus and drive to this effort. We are encouraged by the EU's energy on this issue, and we will continue to work with it to improve the effectiveness of our partnership.

#### Designations and Asset Freezes: Only Part of the Picture

The 9/11 Commission report provides a critique of the public designation of terrorist financiers and organizations for asset freeze, noting that while it is "part of the fight," it is not the "primary weapon." The report goes on to criticize multilateral freezing mechanisms because they require waiting periods that eliminate the element of surprise. It also notes that worldwide asset freezes have been easily circumvented.

We recognize that there are shortcomings in the international designations and asset freeze process; but this cooperative process has helped us develop and deepen a set of invaluable long-term relationships with our interagency and international partners in the three years since 9/11. Through this collaborative international effort, we have built cooperation and the political will necessary to fight terrorism, both through designations and asset freezes, as well as through operational law enforcement actions. As described above, U.S. Government agencies meet regularly to identify, track and pursue terrorist financing targets and to determine, on a case-by-

case basis, which type of action is most appropriate. Designation for asset freezing does not come at the expense of taking appropriate law enforcement action. On the contrary, the two approaches frequently complement each other. There are cases where operational law enforcement action can be initiated quickly to trace, prosecute and shut down terrorists. In other cases, for instance where long-term investigations are under way, the better option may be to designate for asset freezing in order to stop the flow of money that might be used to carry out terrorist activity until law enforcement actions can be taken.

As noted above, we have used multilateral asset freezes, together with technical assistance and the FATF multilateral standard setting process, as valuable devices to isolate terrorist financiers, drive them out of the formal financial system, and unite the international community through collective action. In these cases, designations are preventative, making it harder for terrorists and their supporters to operate. We continue to work together with our international partners to strengthen the multilateral designation process. By carefully working with our allies, we seek to build international consensus, thereby preventing unwanted delays in the process. We urge all foreign governments to fulfill their UN obligations to freeze assets without delay. In cases where an individual or entity assumes a new name, we initiate action to designate the alias, thwarting their efforts to simply continue "business as usual" under a new name. As noted by the 9/11 Commission, these actions prevent open fundraising, diminish support to illicit charities, and act as an element of diplomacy to demonstrate international resolve.

In the fight against global terrorism, the Administration must continue to use vigorously all of the tools at its disposal - including designations/asset freezing, law enforcement/intelligence cooperation, and the establishment and enforcement of international norms and standards. Given that the money that gets into the hands of terrorists flows around the world, the only way we will be successful in drying up their financial resources is through continued, active U.S. engagement with allies, friends, and other countries around the globe. We *must* continue to broaden and deepen our efforts worldwide. These efforts have paid off – and they will continue to do so.

The Department of State plays a pivotal role in, and adds great value to, this broadening and deepening of international cooperation. Officers in our embassies and in Washington bring their experience to bear in judging

the best approach to a specific terrorist or group in a specific country or region. Their political, economic and cultural expertise allows them to weigh the pros and cons of various approaches given the other political and economic dynamics of the countries whose help we are enlisting in the war against terrorism. There are no "off-the-shelf" answers in this field. Each case is different; the State Department is uniquely placed to help weigh options and craft tailor-made strategies to produce effective action.